DM	T&D	REP
1224		ALL REPS
1225		"
1228		"
1229		"
1230		"
PTC	BAM	"
ROM	PA	SC
RM	PC	MC
1240	1242	BAM

DM-147-G

December 16, 1993

TO ALL DIVISION MANAGERS

RE: PM MASTERS PROGRAM VERSUS RJR MERCHANDISING CONTRACTS

A chronology has been prepared by Seattle Region personnel, outlining the evolution of PM's merchandising approach versus RJR's, over the past few years. This evolution is important to understand because it documents PM's desire to do what's best for themselves, regardless of the retailer's needs.

Attached please find a chronology, 1990-1994, for Carton and Pack outlets. Following each chronology are key points regarding PM's program versus RJR's program. If used properly, the attached information should enhance your ability to implement RJR's 1994 Merchandising Contracts and ensure RJR presence at retail.

In closing, please incorporate this information into your presentations. Retailers need to understand that the PM program benefits PM only -- not the industry -- not the retailer.

PM's demands for space, signage and compliance are unprecedented. RJR takes an industry point of view -- what is best for his total cigarette sales -- for all his brands.

Program contact: Ron Grout, ext. 2196

R. J. REYNOLDS TOBACCO COMPANY

Attachment
M-1

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dmpmm.doc/1

CARTON OUTLETS

1990

	PM	RJR
Cartons	• 51 rows minimum - $73 • $4.00 per row up to 160 • 3rd shelf plus contiguous space	• $3.00 per row up to 120 rows
Packs	• Unprecedented bonus payments • $120-$140 Monthly Payment	• Small bonus to defend • $35-$100 Monthly Payment • Preferred Presence

1991

	PM	RJR
Cartons	• 75 rows minimum - $169 • $4.00 per row up to 120 • 3rd shelf plus contiguous or vertical load • $3,000 bonus to place PM fixture	• $3.00 per row up to 120 rows • Small bonus to defend • Preferred Presence
Packs	• No change • Willing to co-exist	• No change • Willing to co-exist

CARTON OUTLETS

1992-1993

	PM	RJR
Cartons	• Masters introduced • Pay for PM volume	• $3.00 per row up to 120 rows
Packs	• PM bundles cartons and packs (Level 1) • (Has to have industry pack merchandiser or no contract) • Other performance levels • Willing to co-exist on cartons • Wants packs all to themselves	• TCM introduced • No change in Pack payments • Introduced Cost Share for Vertical Load • Willing to co-exist, must force PM to do so

1994

	PM	RJR
Cartons	• Masters continued • Total payments virtually unchanged • 50% of signage on carton merchandiser	• Reduced row payment - $2.50 per row • Combined Savings/Full Price • Rows - 120 max
Packs	• Level 2 and 3 require exclusive packs • Dominance in advertising required • Payments structured to incent PM exclusive packs • Unwilling to co-exist	• Pack payments unchanged • Preferred Presence/TCM cancelled • Maintained Cost Share program • Willing to co-exist

KEY POINTS

- PM has continuously tightened requirements over time. PM's 1994 goal is to receive advertising and position benefits on carton merchandisers without the fixture expense, while gaining exclusive presence on pack merchandisers.
- RJR must defend position to ensure co-existence.
- Best scenario for RJR -- hold PM to Level 1 on Masters, if possible. If this is not attainable, PM can have Level 1 and 3, which still allows RJR a package merchandiser.
- RJR must hold firm on cost share program when PM requires 50% of signage on RJR carton merchandiser. PM is <u>not</u> willing to replace RJR carton merchandisers due to the cost.
- Under no circumstances will PM be allowed to place signage over RJR brands. If retailer agrees to Cost Share, PM products must be vertically loaded under their signage.
- PM can be projected as unreasonable and not willing to cooperate if these points are discussed at the appropriate time with the retailer.

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PACK OUTLETS

1990 - 1991

PM Pre-Masters

- Combined Presence program
- Overhead, FP and LP display, additional lit signage required
- FP display location defined as "prime", not cash register
- $185 - $205 per month
- Other than overhead requirement, willing to co-exist

RJR

- Preferred Presence program
- Enhanced sign or overhead, FP display and combination FP promo and LP display
- FP display location defined as cash register
- $85 - $140 per month
- Willing to co-exist

1992 - 1993

- Masters introduced
- Overhead, 2 FP and 1 LP display required
- Hot side of register required
- Additional signage "value"
- Suggested retailer reduce displays to 6 or less
- PM share of displays proportionately equal to share of market
- $147 - unlimited payment per month
- PM headed toward PM dominance, no co-existence

- TCM introduced
- Enhanced signage, 2-FP displays, 1-2 LP displays, other savings options
- RJR willing to take other cash register position
- Distribution in all price points
- RJR selling industry approach
- $85 - $340 per month
- Willing to co-exist

PACK OUTLETS

1994

PM	RJR
• Masters continued • Same display requirements as 1993 • Share of facings equal to PM • Share of signage equal to PM • Advising retailers compliance will be strictly enforced "all or nothing" • $147 - $421 per month • PM wants clear dominance	• Contracts restructured • TCM/Preferred Presence discontinued • Enhanced signage, 1 FP, 1 LP display • New minimum facings requirement • RJR cannot be disadvantaged • Distribution in all price tiers • $75 - $175 per month • Willing to co-exist

KEY POINTS

PM's desire for complete dominance places retailer at a disadvantage:

- PM requires share of facings equal to share of market. If PM's SOM is 50%, and their program requires 48 facings, retailer can only accept an additional 48 facings from other tobacco companies. RJR's program requires a minimum of 40 facings, leaving the retailer with only 8 facings for other displays.
- PM's share of signage requirement is virtually not enforceable. This means that interpretation of this requirement will be made at retail by PM reps, increasing the chances of non-compliance, no payment to retailer.
- If retailer elects to participate in Masters, he will be required to consult with PM to accept other companies offers. PM will, in all cases, suggest the retailer do what is in PM's best interest, not the retailer.

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KEY POINTS

The retailer now has to make a decision on what combination of companies programs he can/will accept:

- PM and RJR -- probably the highest contract payments. Easy to accept, only deals with 2 companies. Retailer has to live with PM's restrictions, potential for high non-compliance.
- RJR and Industry -- retailer does not have to deal with PM's demands. Depending on other companies new contracts, retailer can receive significant contract payments, less restrictions.
- PM and Industry -- least likely to satisfy retailer's needs. Since PM is so restrictive, retailer normally cannot accept enough competitive displays to make up RJR's payments. Still has to deal with PM's restrictions and potential for high non-compliance, along with service levels from other companies that are typically much less than RJR's.

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